



The City of San Diego

Staff Report

DATE ISSUED: September 7, 2021

TO: City Council

FROM: Public Utilities Department

SUBJECT: Wastewater and Water Rate Adjustments, and Cost of Service Study

Primary Contact: Adam Jones Phone: (858) 614-4030

Secondary Contact: Lisa Celaya Phone: (858) 614-4042

Council District(s): Citywide

OVERVIEW:

This public hearing is to discuss and vote on wastewater rates examined in the wastewater cost of service study, as well as a proposal to increase water rates to cover San Diego County Water Authority (SDCWA) charges for water purchases. The item also requests adjustments to the development wastewater capacity fee and industrial wastewater control user fees in conjunction with the wastewater rate adjustments.

PROPOSED ACTIONS:

1. Council authorization to approve pursuant to proposition 218, the following not to exceed rate adjustments and associated actions:
 - a. Proposed wastewater rate adjustments, increasing wastewater system revenues by 5%, effective January 1, 2022; 4%, effective January 1, 2023; 4% effective January 1, 2024; and 3%, effective January 1, 2025 consistent with the 2021 Wastewater Cost of Service Study and supplemental addendum (2021 COSS); and
 - b. Proposed wastewater service charges and commodity and strength charge adjustments consistent with the 2021 COSS; and
 - c. Proposed wastewater capacity fee consistent with the 2021 COSS; and
 - d. Proposed recycled water service charges and commodity rate adjustments consistent with the 2021 COSS; and
 - e. Proposed industrial wastewater control program (IWCP) user fee adjustments consistent with the Industrial Wastewater Control Program Cost Allocation Study, effective July 1, 2022, and phasing in the proposed IWCP adjustments over a four year period; and
2. Accept the 2021 COSS and Industrial Wastewater Control Program Cost Allocation Study; and
3. Council authorization to approve, pursuant to Proposition 218, a pass through rate increase not to exceed 3% to reflect the actual San Diego County Water Authority wholesale rate increase effective January 1, 2022; and
4. Determine that this activity is statutorily exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15273 (Rates, Tolls, Fares, and Charges) of the State CEQA Guidelines which states that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies that the public

agency finds are for the purpose of meeting operating expenses, including employee wage rates and fringe benefits, purchasing or leasing supplies, equipment or materials, meeting financial reserve needs and requirements, or obtaining funds for capital projects, necessary to maintain service within existing service areas.

DISCUSSION OF ITEM:

Background

The Public Utilities Department provides water for City of San Diego customers through the Water Utility Fund, wastewater collection for City of San Diego customers through the Municipal Wastewater Fund, and wastewater treatment and disposal services for City of San Diego customers and regional partners through the Metropolitan Wastewater Fund. As enterprise funds, the Water and Wastewater Funds are supported with revenue derived from rates. These rates are determined through a process prescribed by state law, which requires a cost of service analysis and Council approval of any rate adjustments at a public hearing. The goal of a cost of service analysis and rate adjustments is to ensure that the utility has financial means to meet operational and capital needs, and that customers are paying their appropriate proportional share of the costs to provide services. The Water Utility's last cost of service study was approved by City Council on November 17, 2015, covering rate increases that went into effect January 1, 2016 through September 1, 2019. The Wastewater Utility's last cost of service study was approved on February 26, 2007 covering rates that went into effect May 1, 2007 through May 1, 2010.

On March 25, 2021 the Public Utilities Department released the 2021 COSS for wastewater and recycled water services, which was supplemented with an addendum on July 7, 2021 (Attachment 1), which is the version of the study used in preparation of the proposed rate adjustments. Staff is also proposing to increase existing water rates to cover SDCWA charges for water purchases. This staff report provides a summary of what was included in the 2021 COSS and the next steps in the rate setting process.

Revenue Requirement and Debt Coverage

In November of 2020, the Public Utilities Department released the Fiscal Year 2022-2026 Five-Year Financial Outlook (Outlook), which detailed the expected financial needs for the water and wastewater utilities. The following key expenditures were identified:

- Increasing costs to operate and maintain assets
 - Energy, chemicals, supplies, condition assessments, and maintenance for existing wastewater assets
- Pure Water CIP and operations
 - Phase 1 projected to be operational by the end of Calendar Year 2025, treating wastewater and producing 30 million gallons per day of potable water
- Continued rehabilitation and replacement of sewer trunk/pipeline assets and treatment facilities

In addition to the operating and capital needs, the Outlook discussed the debt service coverage ratios (DSCR) for the Water and Wastewater Utility Funds. The DSCR is a key financial metric that measures a system's ability to make payments on its existing and projected debt service and compares the system's net operating revenues against its debt service payments. While variations in revenues and expenditures will result in varying DSCRs in given years, the Department generally targets a DSCR of 1.5x, a financial target that gives the system the ability to maintain high credit quality leading to continued low borrowing rates. Additionally, the Department's bond covenants require it to maintain a DSCR of 1.2x for its senior debt and 1.1x for its aggregate debt.

In order to maintain the level of expenditures projected in the Outlook and continued low borrowing rates the Funds' favorable debt service coverage supports, the Public Utilities Department must follow the cost

of service process in order to examine possible rate adjustments. This need was especially relevant to the Wastewater Utility which had not had a cost of service done since February of 2007.

Cost of Service Process (Wastewater Utility)

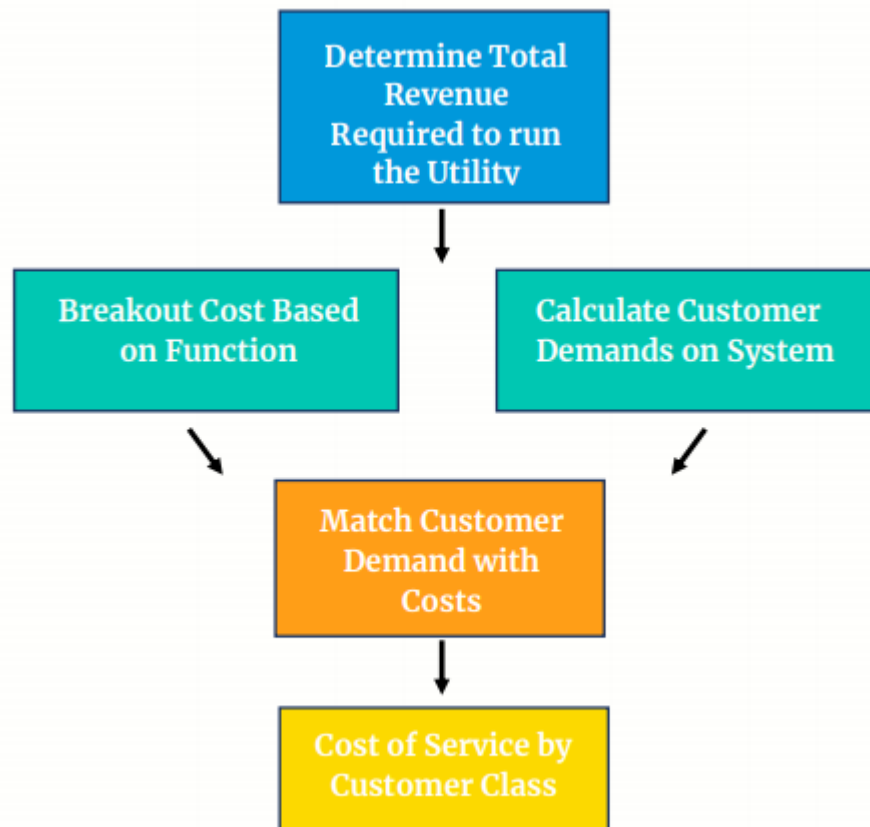
Through the City's Request for Proposal (RFP) process, Raftelis was selected in FY 2017 to develop a cost of service study for both the Water and Wastewater Utilities of the Public Utilities Department and was approved by City Council on June 15th, 2017. This cost of service study would be used to develop service-based rates which meet the City's policy objectives and comply with legal and statutory requirements.

The final 2021 COSS report prepared by Raftelis, with input from Public Utilities staff was presented as an informational item to the Budget Committee on April 4th. The report details the Wastewater Utility's financial plan, cost of service analysis, and rate design process, and provides recommended rate adjustments for wastewater charges, including recycled water.

The first step in the cost of service process is to assign the revenue requirement to specific functional categories. The components of the wastewater revenue requirement for operations are then assigned to the activities they support (e.g., treatment, engineering, customer service, etc.). The wastewater capital cost revenue requirement is assigned functional activities based on proportion of existing and projected wastewater assets. These functionalized costs are then allocated to the specific types of demand (demand parameters) they are used to meet (e.g., flow, strength of waste based on aggregate chemical oxygen demand [COD] & total suspended solids [TSS], customer service). Finally, the costs are allocated

to customer classes based on their respective units of service (e.g., volume of flow, pounds of COD and TSS, and number of customer accounts). The diagram below summarizes the process.

Summary of Cost of Service Process



The City has the following wastewater service customer classes: Single Family Residential, Multi-Family Residential, Commercial/Industrial, Other (Navy, Prisons), Trucked Waste and Imported Flows, and Stormwater Transportation. Single Family Residential represents the largest customer class in number of accounts, flow, and strength of waste based on aggregate COD and TSS. The cost of service process is used to assign costs to each customer class based on their proportional share of total system wastewater demands.

In general, wastewater rates are comprised of two parts: a monthly service fee which is based on customer class, and a wastewater commodity rate which is based on the amount and strength of wastewater discharged into the system. These rates are reflective of the changes in demand and use of the wastewater system over the course of a decade since the development of the last cost of service study. The updated proposed monthly service fee for FY 2022 is slightly lower than the current fee (7.8% decrease). The updated proposed commodity rate for FY2022 is increasing approximately 33% for the Single Family Residential customers, but all other customer classes will see a decrease in commodity rates reflecting the changes in proportional customer class demand on the wastewater system. While the change in Single Family Residential is notable, they are the largest user class for both proportional flow volume and strength measurements, and it does reflect updated data after more than a decade.

The 2021 COSS was independently reviewed by the IBA's consultant Stantec Consulting Services Inc. (Attachment 2). The proposed rates discussed below have been updated to reflect staff's recommended changes based on Stantec's recommendations to the 2021 COSS. The July 20, 2021 staff report (Attachment 3) describes the changes proposed by the Independent review and the Department's responses.

Proposed Rates (Wastewater Utility)

Wastewater Rate Increases

Proposed Overall Required Rate Revenue Adjustments for Wastewater

| Year | % Rate Revenue Increase | Effective Month |
|---------|-------------------------|-----------------|
| FY 2022 | 5.00% | January |
| FY 2023 | 4.00% | January |
| FY 2024 | 4.00% | January |
| FY 2025 | 3.00% | January |

Current and Proposed Wastewater Monthly Service Charge

| Customer Class | Current Charge | Effective January 1, 2022 | Effective January 1, 2023 | Effective January 1, 2024 | Effective January 1, 2025 |
|---------------------------|----------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Single Family Residential | \$15.33 | \$14.14 | \$14.71 | \$15.29 | \$15.75 |
| Multi-Family Residential | \$15.33 | \$14.14 | \$14.71 | \$15.29 | \$15.75 |
| Commercial / Industrial | \$15.33 | \$14.14 | \$14.71 | \$15.29 | \$15.75 |

Current and Proposed Wastewater Commodity Rates

| Customer Class | | Current Charge | Effective January 1, 2022 | Effective January 1, 2023 | Effective January 1, 2024 | Effective January 1, 2025 |
|----------------------------------|------------|-----------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Residential | | | | | | |
| Single Family Residential | (\$ / HCF) | \$3.598 | \$4.786 | \$4.977 | \$5.177 | \$5.332 |
| Multi-Family Residential | (\$ / HCF) | \$5.028 | \$4.786 | \$4.977 | \$5.177 | \$5.332 |
| Commercial / Industrial | | | | | | |
| Flow Charges | (\$ / HCF) | \$3.767 | \$3.191 | \$3.319 | \$3.451 | \$3.555 |
| COD Charges | (\$ / lb) | \$0.224 | \$0.208 | \$0.216 | \$0.225 | \$0.232 |
| TSS Charges | (\$ / lb) | \$0.552 | \$0.469 | \$0.488 | \$0.507 | \$0.522 |
| Trucked Waste | | | | | | |
| Flow Charges | (\$ / HCF) | \$3.900 | \$3.135 | \$3.260 | \$3.391 | \$3.493 |
| COD Charges | (\$ / lb) | \$0.232 | \$0.208 | \$0.216 | \$0.225 | \$0.232 |
| TSS Charges | (\$ / lb) | \$0.571 | \$0.469 | \$0.488 | \$0.507 | \$0.522 |
| Stormwater Transportation | | | | | | |
| Flow | (\$/HCF) | \$7.676 | \$3.808 | \$3.960 | \$4.119 | \$4.242 |

HCF= Hundred Cubic Feet (748 gallons)

Please note, The City bills the majority of its single-family residential customers on a bi-monthly basis. This means each bill these customers receive includes charges for two months of service.

Wastewater Capacity Rate Increase

The current wastewater capacity fee has been in place since 2007. The proposed fee uses the combined methodology which considers the value of the existing available capacity as well as the value of future capacity projects. Capacity fees are expressed on a per equivalent dwelling unit (EDU) basis. The proposed capacity fee is \$5,154 per EDU which represents a \$1,026 increase from the current fee of \$4,124 that was implemented in 2007. As required under the City's Municipal Code and the Fee Mitigation Act, these increases have been separately noticed to interested parties that have requested to be noticed under Government Code 66016 and notice was published by the City in the paper of record two times within the 10 days period prior to the public hearing.

Recycled Water Rate Increase

The City provides recycled water service to customers who use approximately 5.76 million HCF annually. Wastewater is treated for use in irrigation, manufacturing and other non-drinking or non-potable purposes. The tables below show the current charges and proposed rates included in the 2021 COSS and the Proposition 218 Notice.

Current and Proposed Recycled Water Monthly Service Charge

| Meter Size | Current Charge | Effective January 1, 2022 | Effective January 1, 2023 | Effective January 1, 2024 | Effective January 1, 2025 |
|------------|----------------|---------------------------|---------------------------|---------------------------|---------------------------|
| 5/8", 3/4" | \$21.55 | \$18.98 | \$19.74 | \$20.53 | \$21.14 |
| 1" | \$21.55 | \$29.31 | \$30.48 | \$31.70 | \$32.65 |
| 1.5" | \$39.05 | \$55.13 | \$57.34 | \$59.63 | \$61.42 |
| 2" | \$60.06 | \$86.11 | \$89.55 | \$93.14 | \$95.93 |
| 3" | \$126.52 | \$184.22 | \$191.59 | \$199.25 | \$205.23 |
| 4" | \$224.50 | \$328.80 | \$341.95 | \$355.63 | \$366.30 |
| 6" | \$493.94 | \$674.77 | \$701.76 | \$729.83 | \$751.73 |
| 8" | \$843.86 | \$1,449.32 | \$1,507.29 | \$1,567.58 | \$1,614.61 |
| 10" | \$1,333.75 | \$2,172.23 | \$2,259.12 | \$2,349.48 | \$2,419.97 |
| 12" | \$1,753.65 | \$2,740.23 | \$2,849.84 | \$2,963.83 | \$3,052.75 |
| 16" | \$3,503.24 | \$4,031.15 | \$4,192.40 | \$4,360.09 | \$4,490.89 |

Current and Proposed Recycled Water Commodity Rate

| Class | Current Charge | Effective January 1, 2022 | Effective January 1, 2023 | Effective January 1, 2024 | Effective January 1, 2025 |
|--------------------|----------------|---------------------------|---------------------------|---------------------------|---------------------------|
| All Usage (\$/HCF) | \$1.73 | \$2.21 | \$2.30 | \$2.39 | \$2.46 |

The methodology for how each customer rate was determined is discussed in detail in the 2021 COSS.

Industrial Wastewater Control Program Fees

The IWCP is a critical component of the City's wastewater treatment process because it protects the collection system and the treatment plants by monitoring for illicit discharges and regulating the concentration of pollutants coming into the system to ensure plants can properly treat the wastewater before it is either recycled, or discharged. A pretreatment program is required by the U.S. Environmental Protection Agency for Publicly Owned Treatment Works (POTWs) and sewage collection agencies. Enforcement of these regulations has been identified as an effective approach to control the source of industrial pollutants.

The many tangible and intangible benefits provided by this program are:

- Protects infrastructure and helps to manage the utility's operations and maintenance costs.
- Ensures the treatability of the wastewater being discharged, protecting public health and the ocean environment.
- Precludes the need for additional significant upgrades to the Point Loma Wastewater Treatment Plant (PLWTP), which saves ratepayers money.

Per Municipal Code Section 64.0508, Industrial Wastewater Discharge Permit Fee, IWCP fees should be established from time to time and collected annually from all permittees. IWCP fees have not been reassessed or updated since Resolution 260133 in 1984. In 2013 and 2020, the City Auditor issued Audit

Recommendations and a Follow Up Report (Audit) of IWCP. The Auditors found that outdated fees limited program cost recovery.

The attached report (Attachment 4 – IWCP Study) provides fees that fully recover the costs of IWCP in accordance with Council Policy 100-05 User Fee Policy. Staff is only seeking to modify the fees associated with Industrial user Fees and Trucked waste, which are shown below.

Industrial User Fees (Current Range and Full Cost Recovery cost)

| Category | Business Types | Approx. # of Businesses | Current Range | Full Cost Recovery |
|-------------------------------|---|--------------------------------|----------------------|---------------------------|
| SIU - Standard | Pharmaceutical manufacturing, brewery, industrial laundry | 70 | \$600 - \$2,180 | \$8,999 |
| SIU – Complex | Education campus, military base, metal related businesses | 15 | \$500 - \$5,280 | \$29,903 |
| Non-SIU / Categorical process | Education campus, aerospace manufacturing, metal finisher | 40 | \$275 - \$1,050 | \$5,277 |
| Enhanced source control | Car wash, bio tech, hospitals, theme park, heavy equipment rental | 300 | \$135 - \$310 | \$2,603 |

Trucked Waste (Current and Full Cost Recovery)

| Category | Current | Full Cost Recovery |
|--------------------------|----------------|---------------------------|
| Base Permit | \$25 | \$1,289 |
| Self Monitoring | \$25 | \$2,598 |
| High Strength Discharges | \$25 | \$3,271 |
| After Hours | | |
| Scheduled | \$50 | \$107 |
| Emergency | \$85 | \$226 |

Staff is recommending a phased-in approach (25 percent incremental increases each year beginning July 1, 2022) based on feedback from stakeholders who are concerned with the impact on business during the current unprecedented pandemic, and to provide ample time for businesses to plan for the

increases. Rates would be fully cost recovered by July 1, 2025 and the user fees would then be reevaluated periodically thereafter, no later than every five years.

| Industrial Users Program | Full Cost Recovery (FY 2026) | 25% Cost Recovery (FY 2023) |
|---------------------------------|-------------------------------------|------------------------------------|
| SIU-Standard | \$8,999 | \$2,250 |
| SIU-Complex | \$29,903 | \$7,476 |
| NON-SIU/Categorical Process | \$5,277 | \$1,319 |
| Enhanced Source Control | \$2,603 | \$651 |

| Trucked Waste Program | Full Cost Recovery (FY 2026) | 25% Cost Recovery (FY 2023) |
|------------------------------|-------------------------------------|------------------------------------|
| Base Permit | \$1,289 | \$322 |
| Self Monitoring | \$2,598 | \$650 |
| High Strength Discharges | \$3,271 | \$818 |
| After Hours | | |
| Scheduled | \$107 | \$27 |
| Emergency | \$226 | \$57 |

Wholesale Water Rate Pass Through (Water Utility)

San Diego relies heavily upon imported water from Northern California and the Colorado River. The City historically has purchased approximately 85-90 % of its annual water needs from SDCWA, which in turn purchases its water from the Metropolitan Water District of Southern California (MWD). Historically, SDCWA increases water rates annually. These increases are based on SDCWA costs for infrastructure, operations, maintenance, and water purchases from the MWD. The increased costs are then passed through by SDCWA to the member agencies that purchase water from SDCWA including the City of San Diego. These increased costs are known as "pass throughs."

In June of each year, SDCWA Board approves wholesale water rate increases that increase the City's water purchase costs effective the following year on January 1. On June 24, 2021 the County Water Authority passed Ordinance Number 2021-01 (https://www.sdcwa.org/wp-content/uploads/2020/11/Ordinance2021_01.pdf) adjusting the fixed and volume rates charged to each member agency. The estimated cost increase for the City's projected water purchases is 5.86% or \$17.4 million over prior years rates. Staff is requesting the authority to increase fixed and commodity water rates for all customers up to a maximum of 3.0% to pass through these costs. The Department will provide all customers a minimum 30-day written notice prior to implementing this pass through adjustment. The tables below show the list of charges that would be subject to the pass through increase.

Current and Maximum Water Monthly Service Charge

| Meter Size | Current Charge | 3% Pass Through Increase |
|-------------------|-----------------------|---------------------------------|
| 5/8", 3/4" | \$26.30 | \$27.09 |
| 1" | \$34.83 | \$35.87 |
| 1.5" | \$54.34 | \$55.97 |
| 2" | \$78.72 | \$81.08 |
| 3" | \$136.01 | \$140.09 |
| 4" | \$217.69 | \$224.22 |
| 6" | \$420.05 | \$432.65 |
| 8" | \$663.85 | \$683.77 |
| 10" | \$949.10 | \$977.57 |
| 12" | \$1,760.96 | \$1,813.79 |
| 16" | \$3,061.65 | \$3,153.50 |

Current and Maximum Water Commodity Rates

| Customer Class | | Current Charge | 3% Pass Through Increase |
|--|------------|-----------------------|---------------------------------|
| Single Family Residential | | | |
| Tier 1 | (\$ / HCF) | \$5.257 | \$5.415 |
| Tier 2 | (\$ / HCF) | \$5.888 | \$6.065 |
| Tier 3 | (\$ / HCF) | \$8.412 | \$8.664 |
| Tier 4 | (\$ / HCF) | \$11.828 | \$12.183 |
| Multi-Family Residential | (\$ / HCF) | \$6.362 | \$6.553 |
| Commercial/Industrial/ Outside City | (\$ / HCF) | \$6.208 | \$6.394 |
| Irrigation | (\$ / | | |
| HCF) | | \$7.053 | \$7.265 |
| Temporary Construction | (\$ / HCF) | \$7.173 | \$7.398 |

Current and Maximum Fireline Monthly Service Charge

| Meter Size | Current Charge | 3% Pass Through Increase |
|-------------------|-----------------------|---------------------------------|
| 5/8", 3/4" | \$3.91 | \$4.03 |
| 1" | \$3.91 | \$4.03 |
| 1.5" | \$6.06 | \$6.24 |
| 2" | \$23.47 | \$24.17 |
| 3" | \$30.00 | \$30.90 |
| 4" | \$44.31 | \$45.64 |
| 6" | \$62.58 | \$64.46 |
| 8" | \$80.84 | \$83.27 |
| 10" | \$96.48 | \$99.37 |
| 12" | \$156.44 | \$161.13 |
| 16" | \$194.78 | \$200.62 |

Please note, The City bills the majority of its single-family residential customers on a bi-monthly basis. This means each bill these customers receive includes charges for two months of service.

Due to \$35.5 million in water fund's portion of the proceeds from the City's sale of the former stadium site and a \$17.7 million settlement as a result of litigation between SDCWA and MWD, the Mayor is only proposing a rate increase in January 2022 to cover the increase in SDCWA charges on water sales . It is anticipated that a full water cost of service study would be released during Fiscal Year 2022 pending resolution of current litigation.

Noticing and Legal Requirements

On November 5, 1996, the voters of the State of California approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218, effective July 1, 1997, added Articles XIIIIC and XIIID to the State Constitution, which contain several provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees, and charges. Article XIIID, section 6(a)(1) imposes noticing procedures for imposing a new or increasing an existing property-related fee or charge. This initiative changed the way the public is notified of proposed fee increases. Specifically, it requires that notices be mailed to all property owners of record at least 45 days in advance of the date on which a proposed property-related fee increase may be adopted. The Public Utilities Department's proposed noticing process adheres to all legal requirements associated with Proposition 218 and applicable sections of the Government Code and was prepared in consultation with the City Attorney's office. The notice was sent 45 days in advance of the public meeting scheduled for September 21, 2021 and posted on the City's website at SanDiego.gov/rate-increases (Attachment 5). The Department has mailed a separate notice (attachment 6) to all customers that received the proposition 218 notice providing clarifications that the tables describing water rates were for monthly bills, and clarifying that some customers receive bills that reflect two months of service, based on feedback from the public outreach meeting. The current proposition 218 notice is attached (attachment 7)

This notice informed customers of the proposed adjustments to the wastewater, recycled water, and wholesale water rate pass through fees and rates and will provide information on the City Council hearing date for public comment. Included in the notice are instructions for how to protest via mail or drop off to the City Clerk. If the city receives valid protest from 50%+1 of customers/impacted parcels than the Council will not be able to vote on the proposed rate increases. Adjustments for recycled water and wastewater rates will be adjusted up to the approved rates on January 1 from 2023 through 2025. Staff cannot increase rates in future years above the not-to-exceed levels approved by the City Council but

does have the ability to reduce the rate of increase based on the actual revenue requirement of the utility. The Public Utilities Department is committed to including in future Five-Year Financial Outlooks (Outlook) a new section of the report that addresses the projected level of rate assumed. The section will show maximum level of rate increases authorized by City Council and the projected increases based on the updated projections done for the Outlook. The Outlook is traditionally released in November, which would provide enough time to confirm the level of revenue required in advance of a January 1 rate adjustment. In addition, the Department will include a slide in its budget review committee presentation of the projected level of rate increase assumed in the Department's budget.

City Strategic Plan Goal(s)/Objective(s):

Goal #3: Create and sustain a resilient and economically prosperous

City Objective #2: Increase water independence.

Fiscal Considerations:

The water pass-through charge is estimated to generate \$17.4 million in additional revenue to support \$17.4 million in additional wholesale water cost from CWA during Calendar Year 2022, based on projected water purchases. The 5% increase in rate revenue for the wastewater utility is expected to generate \$13.9 million during the first 12 months of the rate increases. Subsequent years revenue increases are dependent on the projected water/wastewater customer usage and approved rates.

Charter Section 225 Disclosure of Business Interests:

N/A (no contract associated with the action)

Environmental Impact:

Pursuant to Section 15273 (Rates, Tolls, Fares, and Charges) of the California Environmental Quality Act (CEQA), CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies that the public agency finds are for the purpose of meeting operating expenses, including employee wage rates and fringe benefits, purchasing or leasing supplies, equipment or materials, meeting financial reserve needs and requirements, or obtaining funds for capital projects, necessary to maintain service within existing service areas. As such, this activity is statutorily exempt from CEQA pursuant to Section 15273(a)(1), (a)(2), (a)(3), and (a)(4) of the State CEQA Guidelines.

Equal Opportunity Contracting Information (if applicable):

N/A

Previous Council and/or Committee Actions:

The public hearing date and the approval to issue the proposition 218 notice was approved by City Council on July 20, 2021 and heard at the Budget and Government Efficiency Committee on June 23, 2021.

On March 16, 2021 the Independent Budget Analyst presented a training to City Council titled "How a Cost of Service Study is used to Inform Proposed Water and Wastewater Rates". The Public Utilities Department presented an informational item regarding the Wastewater Cost of Service and San Diego County Water Authority Pass Through to the Budget and Government Efficiency Committee on April 4 and to the Independent Rates Oversight Committee on April 19. The IBA released Stantec's review of the 2021 COSS on May 17 and presented to the Budget and Government Efficiency Committee on May 26.

The last wastewater COSS was an informational item at the Natural Resources and Culture Committee on January 24, 2007. On February 26, 2007, City Council adopted resolution R-302378 approving incremental wastewater revenue increases.

The last water COSS was presented to the Environment Committee on August 5, 2015. On November 17, 2015, City Council adopted resolution R-310097 approving incremental water revenue increases.

IWCP fees were discussed at the Audit Committee on July 22, 2020 and September 30, 2020 and on September 24, 2020 at Environment Committee.

Key Stakeholders and Community Outreach Efforts:

The Public Utilities Department publicly released the 2021 COSS on March 25, 2021 on the Department's webpage, with a press release and social media posting. The website, SanDiego.gov/rate-increases, includes a frequently asked questions section. The COSS was presented to the Independent Rates Oversight Committee (IROC) on April 19 and Metro Wastewater Joint Powers Authority on June 3. Staff worked with individual Council Districts to set up eight public forms to discuss the rate adjustments and answer community questions. Those questions and answers have also been posted to the City's website. The Department has done interviews with local news media, provided information for community newsletters, and provided updates on the City's social media accounts regarding the rate increases. Members of the Public Utilities Department and Communications Department also provided presentations at several town council meetings and/or planning groups.

Staff created a user-friendly residential rate calculator available on the Department's website so that customers can enter information from their bills to see what impact the proposed rate increases will have on their bill, based on the updated addendum for the COSS.

All City of San Diego water and wastewater customers received the Proposition 218 notice of the public hearing, which informed the customer how to register a protest against the proposed rate adjustments. The notice was translated into multiple languages, including Spanish, Tagalog, Vietnamese, Chinese and Somali, which were uploaded to the city's website.

Presentations on the IWCP fees and the proposed changes to rates have been presented to the San Diego Regional Chamber of Commerce Sustainability and Industry Committee, Chula Vista Chamber of Commerce, the Industrial Environmental Association, and the Metro Wastewater Joint Powers Authority. In addition, the City has received written letters from the City of Chula Vista, Lemon Grove, and the Metro Wastewater Joint Powers Authority on IWCP fees.

Lisa Celaya

Assistant Public Utilities Department Director

Alia Khouri

Deputy Chief Operating Officer